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Annex 15

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Rec'd October 3, 1947
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DEPARTMENT
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FROM: Cairo

TO: Secretary of State

NO: 1182, October 3, 3 p.m.

FOR STATE AND TREASURY

On October 2 UK advised Egyptian Government - to latter's dismay - that no further dollars would be available to Egypt in 1947. This decision all the more crushing to Egyptians since Iliff had come to Cairo to negotiate. Egypt had requested 10 million dollars on basis of drastic downward revision of import program. Egyptian dollar crisis is obviously much worsened by UK decision. Dollar availabilities for 1947 now as follows: 10 million for current earnings; 6 million from previous UK allocation Availabilities for 1948 estimated at approximately 30 million dollars, which is amount of estimated current earnings.

Embassy informed that Egypt will apply for 15 million dollars from International Monetary Fund. This would give total dollars from now to end of 1948 of about 60 million which is less than recent annual rate of dollar expenditures.

As reported in MYTEL 1168, October 1, there is bitterness evident in reactions of Egyptian officials who believe that US is disinclined to help due to assumed US conviction that this is a "British domain." Our visiting Congressmen have been briefed on critical situation here and have expressed some sympathy towards idea of direct US aid. However, I have it on best authority that Egyptian officials are disinclined to make new approach regarding loan in view of past cool reception received in US to previous overtures.

I need hardly stress the extent to which the financial position ties in with the present uncertain political situation in Egypt. I feel that we should do all in our power to help the Egyptians who are facing a critical phase in their national existence. I therefore strongly recommend that immediate consideration be given to the following possibilities:

ONE. Payment of US Navy's Suez Canal fees in dollars (now running at rate of about 1 million dollars a year) rather than from Treasury holdings of Egyptian pounds.

TWO. US support to Egypt in exercising full drawing right in International Monetary Fund;

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THREE. Restoration of the higher 1946 cotton quota;

FOUR. Authorizing this mission to inform Egyptians that presentation of their dollar problem would be sympathetically considered in Washington.

This last step which is the most important would be with the view to granting a general U. credit to meet the present critical deficiency of dollars and possibly an Export Import Bank credit to finance such portions of import program as can qualify for such assistance.

As a direct result of the dollar shortage situation of certain important American firms in Egypt is becoming increasingly difficult. The exchange control is now reserving all dollars for vital imports of oil, freight charges, expenditures on diplomatic missions, and existing commitments for purchase of railway equipment. It appears doubtful that any dollars will be available for other US trade. No remittances of profits are being permitted which, to mention two specific examples, hits TWA and motion pictures hard. Unless dollar availabilities can be substantially increased, normal trade with US will very possibly not merely be curtailed but suspended altogether. Egypt's dollar earnings cannot be expected to modify this situation in near future. Prospective earnings of 30 million dollars for 1948 will not even cover above-mentioned vital imports.

If we are in a position to help Egypt we should do so now. The prestige which would accrue to US by steps directed to alleviate the genuinely critical financial situation would be considerable and would greatly contribute in strengthening our position throughout the Near East. Such concrete assistance would do much to overcome the conviction, that is becoming increasingly prevalent, that we are indifferent to Egyptian predicament and are playing the British game. I foresee, in the connection with the Palestine question and possible developments in granting future trusteeships of former African colonies, the possibility of increasingly strong anti-American sentiment, and I consider that if we can at this time contribute materially to the restoration of Egyptian economy, we may create an atmosphere of more reasonable understanding on the part of Egyptians towards these difficult problems.

MESSAGE UNSIGNED

SW:WLB